

Message Text

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ORIGIN NEA-12

INFO OCT-01 ISO-00 EB-11 TRSE-00 AID-20 L-03 ABF-01 A-01

FS-01 AGR-20 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00

RSC-01 XMB-07 OPIC-12 SPC-03 CIEP-02 LAB-06 OMB-01

IGA-02 SS-20 NSC-10 DODE-00 PA-04 USIA-15 PRS-01 CU-04

FBO-01 INRE-00 SSO-00 NSCE-00 /171 R

DRAFTED BY L/NEA:ATBROWN:EB/IFD/ODF:MCASSE:NEA/INS:DBORN:MRC
11/17/73 EXT. 29501

APPROVED BY NEA:LBLAINGEN

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TREAS:OASIA:HLEE

EB/IFD:SWEINTRAUB

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FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI IMMEDIATE

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E.O. 11652: N/A

TAGS: EFIN, IN

SUBJECT: RUPEE DISCUSSIONS

REF: NEW DELHI 13175

1. WE ARE CONCERNED ABOUT PROSPECT OF GOI AGREEMENT TO
SUBSTANCE MOV PROPOSAL WITHOUT USG CONSENSUS MECHANICS
OF MOV OR APPROPRIATE TECHNICAL LANGUAGE. MECHANICS OF
MOV PROVISION TRANSMITTED REFTTEL PARA 5 APPEAR AMBIGUOUS
ESPECIALLY AS TO MEANING OF "ANY NECESSARY ADJUSTMENT OF
THE BALANCE OF THE RUPEE ACCOUNT SHALL BE MADE" ETC. OUR
GOAL IS TO AVOID RISK OF PROLONGING MOV AGONY OVER LANGUAGE
ONCE GOI HAS AGREED TO SUBSTANCE, AMOUNT AND DURATION OF
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MOV COVERAGE.

2. WE ARE WORKING ON THE REQUISITE TECHNICAL LANGUAGE ON MOV AND WILL TRANSMIT IT FOR YOUR USE AND/OR COMMENT ASAP (WE ARE SHOOTING FOR COB NOV 19). WE HAVE EXAMINED IN DETAIL THE FINANCIAL ASPECTS OF ALTERNATE MECHANISMS FOR MOV. OUR FIRST INCLINATION IS TO SEEK A MECHANISM ALONG THE FOLLOWING LINES:

A. A DOLLAR-DENOMINATED PART OF OUR ACCOUNT IS ESTABLISHED IN THE AMOUNT OF DOLS 500 MILLION, DECLINING AT DOLS 50 MILLION PER YEAR. A RUPEE-DENOMINATED PART OF THE ACCOUNT IS ALSO ESTABLISHED FOR THOSE RUPEES WITHOUT MOV PROTECTION. (FYI THE MECHANICS OF MOV ARE MUCH MORE EASILY HANDLED, IN OUR VIEW, WHEN WE USE SUCH A TWO-PART ACCOUNT: A DOLLAR-DENOMINATED RUPEE PART AND AN ORDINARY RUPEE PART. THE TECHNICAL COMPLEXITIES OF PROVIDING MOV IN A SINGLE ALL RUPEE-DENOMINATED ACCOUNT ARE FORMIDABLE. END FYI)

B. RUPEES ARE WITHDRAWN FROM THIS DOLLAR-DENOMINATED PART (UP TO DOLS 50 MILLION PER YEAR) AT THE MOST FAVORABLE EXCHANGE RATE ON THE DATE OF WITHDRAWAL OR THE DATE OF THE AGREEMENT WHICHEVER IS HIGHER.

C. IF FEWER THAN DOLS 50 MILLION ARE SPENT IN ANY ONE OF THE TEN YEARS, THE REMAINDER, I.E., DOLS 50 MILLION LESS THE AMOUNT SPENT, IS TRANSFERED, ON THE ANNIVERSARY DATE OF THE AGREEMENT, TO THE RUPEE PART OF THE ACCOUNT AT AN EXCHANGE RATE FOR THAT DATE CALCULATED AS IN B) ABOVE.

D. IF THE GOI WISHES, USG WITHDRAWALS (UP TO DOLS 50 MILLION PER YEAR) WOULD BE FROM THE DOLLAR-DENOMINATED PART FIRST.

3. AID/GC ALSO CONCERNED WITH CONVERSION FORMULA CONTAINED REFTEL PARA 1, ESPECIALLY AS TO MEANING OF "HIGHEST" RATE OBTAINABLE. WE ARE CIRCULATING TO USG AGENCIES HERE REVISED DRAFT LANGUAGE AS SET FORTH BELOW. WE WOULD WELCOME YOUR COMMENTS ON THIS FORMULATION: "THE APPLICABLE RUPEE/ DOLLAR EXCHANGE RATE SHALL BE THE RATE IN EFFECT ON THE LIMITED OFFICIAL USE

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CONVERSATION DATE UNDER THE RULES AND REGULATIONS OF THE RESERVE BANK OF INDIA FOR THE PURCHASE OF UNITED STATES DOLLARS WITH INDIAN RUPEES; PROVIDED, THAT IF ON ANY CONVERSION DATE MORE THAN ONE SUCH RATE IS IN EFFECT, OR A DIFFERENT RATE IS OBTAINABLE BY ANY OTHER NATION, THE APPLICABLE EXCHANGE RATE SHALL BE THAT RATE WHICH REQUIRES THE SMALLEST NUMBER OF INDIAN RUPEES FOR THE PURCHASE OF EACH UNITED STATES DOLLAR."

4. WE ARE SEEKING COMMENTS OF CONCERNED USG AGENCIES BY
COB NOV. 19 ON NOV. 14 DRAFT. WE WILL FORWARD COMMENTS
ON THAT DRAFT AND ON CONVERSION AND MOV PARAGRAPHS WHEN
RECEIVED.

5. AS INDICATED STATE 225540, WE ARE DEFERRING PUTTING
PACKAGE TO SECRETARY PENDING YOUR REPORT OF INDIAN REACTION
TO SUBSTANCE (AS DISTINCT FROM TECHNICAL ISSUE RAISE ABOVE)
OF MOV PROPOSAL. KISSINGER

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